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Aqua Illinois Inc.

Vermilion Water

Projected Financial Information

For the Years Ending December 31, 2009 and 2008

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Aqua Illinois Inc.

Vermilion Water

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INDEPENDENT ACCOUNTANTS' REPORT

To the Board of Directors
Aqua Illinois Inc.

We have examined the accompanying Projected Statements of Utility Operating Income for the years ending December 31, 2009 and 2008, the Projected Statements of Jurisdictional Rate Base as of December 31, 2009 and 2008 of Aqua Illinois Inc. - Vermilion Water, and the Projected Statements of Capital Structure as of December 31, 2009 and 2008 of Aqua Illinois Inc. Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included such procedures as we considered necessary to evaluate both the assumptions used by management and the preparation and presentation of the projected financial information, except for the Statement of Capital Structure, which was limited to the activity of Vermilion Water.

The accompanying projected financial information presents, to the best of management's knowledge and belief, the Projected Statements of Utility Operating Income for the years ending December 31, 2009 and 2008, and the Projected Statements of Jurisdictional Rate Base as of December 31, 2009 and 2008 of Aqua Illinois Inc. -Vermilion Water, and the Projected Statements of Capital Structure as of December 31, 2009 and 2008 of Aqua Illinois Inc. that would result if the water rates in effect during 2007 would not change prior to December 31, 2009 as discussed in note 3.

The projected financial information and this report were prepared in connection with an application to the Illinois Commerce Commission by the Company for an increase in water rates for the Vermilion Water division and should not be used for any other purpose. The Illinois Commerce Commission requires the use of a projection based on the assumption that there will be no rate increase during the projection period.

In our opinion, the Aqua Illinois Inc. -Vermilion Water Projected Statements of Utility Operating Income for the years ending December 31, 2009 and 2008 and the Projected Statements of Jurisdictional Rate Base as of December 31, 2009 and 2008 presents fairly, in conformity with the guidelines for a presentation of projected information established by the American Institute of Certified Public Accountants and the underlying assumptions provide a reasonable basis for management's projection given the hypothetical assumption that rates in effect during 2007 would not change prior to December 31, 2009 as discussed in note 3. However, even if such hypothetical assumption were to occur, there will usually be differences between projected and actual results because events and circumstances frequently do not occur as expected, and those differences may be material. We have no responsibility to update this report for events and circumstances occurring after the date of this report.

December 28, 2007

Aqua Illinois Inc.
Vermilion Water Only

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PROJECTED STATEMENTS OF UTILITY OPERATING INCOME

For the Years Ending December 31, 2009 and 2008

	Vermilion Water	
	2009	2008
OPERATING REVENUE	\$ 12,879,443	\$ 12,863,194
OPERATING EXPENSES		
Operation and maintenance	5,601,810	5,185,464
Depreciation and amortization	2,526,085	2,434,310
Taxes Other than the Income	928,101	901,069
Income Taxes		
Federal	748,590	967,832
State	176,655	226,120
Total Operating Expenses	9,981,240	9,714,794
UTILITY OPERATING INCOME	\$ 2,898,203	\$ 3,148,399

See accompanying summary of significant projection assumptions and accounting policies.

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PROJECTED STATEMENTS OF JURISDICTIONAL RATE BASE

December 31, 2009 and 2008

	Vermilion Water	
	<u>2009</u>	<u>2008</u>
GROSS UTILITY PLANT IN SERVICE AT ORIGINAL COST	\$ 85,258,404	\$ 83,076,005
LESS: Reserve for accumulated depreciation and amortization	<u>26,445,028</u>	<u>24,663,917</u>
NET UTILITY PLANT IN SERVICE	58,813,376	58,412,087
PLUS:		
Amortization of CIAC	2,108,202	1,985,461
Working capital allowance	724,937	680,163
Deferred charges	388,958	497,395
Materials and supplies	388,512	382,671
LESS:		
Customer advances	905,655	905,655
FAS 87 pension	1,002,290	859,319
Contributions in aid of construction	6,494,226	6,494,226
Deferred income tax	<u>4,401,531</u>	<u>4,487,210</u>
PROJECTED JURISDICTIONAL RATE BASE	\$ <u>49,620,283</u>	\$ <u>49,211,367</u>

See accompanying summary of significant projection assumptions and accounting policies.

Aqua Illinois Inc.

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PROJECTED STATEMENTS OF CAPITAL STRUCTURE

December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
LONG TERM DEBT	\$ 73,478,798	\$ 73,251,838
SHORT TERM DEBT	0	1,900,000
PREFERRED STOCK	379,057	379,057
COMMON EQUITY	<u>81,044,578</u>	<u>81,537,336</u>
Total	<u>\$ 154,902,433</u>	<u>\$ 157,068,231</u>

See accompanying summary of significant projection assumptions and accounting policies.

**Aqua Illinois Inc.
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**SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND
ACCOUNTING POLICIES**

For Years Ending December 31, 2009 and 2008

(1) INTRODUCTION

This projected statement of utility operating income for the years ending December 31, 2009 and 2008, the projected statements of jurisdictional rate base and the projected statements of capital structure as of December 31, 2009, and 2008 (Projected Financial Information), to the best of management's knowledge and belief, reflect the projected rate base and operating income for the years ending December 31, 2009, and 2008 of Aqua Illinois Inc. Vermilion Water (the Company), a division of Aqua Illinois Inc. a wholly owned subsidiary of Aqua America, and the capital structure of Aqua Illinois Inc. as of December 31, 2009 and 2008, assuming no change prior to December 31, 2009, in water rates from those rates in effect during 2007. Accordingly, the Projected Financial Information reflects management's judgment as of December 28, 2007, the date of this Projected Financial Information, of the expected conditions and its expected course of action assuming no change prior to December 31, 2009, in water rates.

(2) SIGNIFICANT ACCOUNTING POLICIES

The Projected Financial Information was prepared in connection with an application to the Illinois Commerce Commission (ICC) by the Company for increases in water rates and should not be used for any other purpose. The assumptions disclosed herein are those that management believes are significant to the Projected Financial Information. Even if there is no change in water rates from those in effect during 2007, there will usually be differences between projected and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

Property, Plant and Equipment

The cost of additions to utility plant and replacement of retired units of property are capitalized. Cost includes material, direct labor and such indirect items as engineering and supervision, payroll taxes and benefits, transportation and an allowance for funds used during construction. Repairs, maintenance and minor replacements of property are charged to current operations. The cost of property units retired in the ordinary course of business plus removal cost (less salvage) is charged to accumulated depreciation.

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**SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND
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For Years Ending December 31, 2009 and 2008

Additions to utility plant (net of retirements) of \$1,838,858 for 2009 and \$3,244,758 for 2008 were projected based on the Company's capital investment plan, excluding allocated corporate additions and amortization of acquisition adjustments. However, such corporate allocations are reflected in the gross utility plant.

For financial reporting purposes, depreciation is computed on the straight-line method over the estimated service lives of the assets as approved by the ICC. For income tax reporting purposes, depreciation is computed using applicable tax reporting guidelines (primarily accelerated methods).

Allowance for Fund Used During Construction

The allowance for funds used during construction ("AFUDC") represents the estimated cost of funds used to finance the construction of utility plant. AFUDC is applied to construction projects requiring more than two months to complete. No AFUDC is applied to projects funded by customer advances for construction or contributions in aid of construction. AFUDC includes the net cost of borrowed funds and a rate of return on other funds when used, and is recovered through water rates as the utility plant is depreciated.

Regulatory and Other Long-Term Assets

Unamortized debt issuance expense is amortized over the life of the related debt issue.

Amortization of contributions in aid of construction is recorded using the appropriate depreciation rate for depreciable mains in service at December 31, 2007.

Recognition of Revenues

Water service revenues for financial reporting purposes include amounts billed to customers on a cycle basis and unbilled amounts determined using estimated usage and rates, from the date of the latest meter reading to the end of accounting period.

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**SUMMARY OF SIGNIFICANT PROJECTION ASSUMPTIONS AND
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For Years Ending December 31, 2009 and 2008

Employee and Postretirement Benefits

The Company has a defined benefit pension plan covering employees that were hired prior to April 1, 2003, the White Star Benefit program. Pension benefits are based on years of service and the employee's average salary during the last five years of employment. The Company's funding policy is to contribute an amount that will provide for benefits attributed to service to date and for those expected to be earned in the future by current participants to the extent deductible for income tax purposes. Non union employees hired after April 1, 2003 and union employees hired after July 1, 2003 receive no pension benefits. There are currently 26 employees not covered by the White Star Benefit program.

White Star Benefit program employees are also included in a 401K plan in which participants may elect to contribute a portion of their pre-tax compensation subject to annual IRS limitations. Employee contributions are partially matched by the Company at the rate of 40% of the pre-tax employee input up to \$1,040 for each participant. Employees not covered by the White Star Benefit program are also included in a 401K program. This program is similar to the White Star Benefit program 401K except that the Company makes a partial match of 50% of the first 6% of the employees compensation. In both plans the contributions are made in the form of Aqua America, Inc. common stock.

In addition to pension benefits, employees retiring from the Company in accordance with the retirement plan provisions are entitled to postretirement health care and life insurance coverage. These benefits are subject to deductibles, co-payment provisions and other limitations. The company may amend or change the plan periodically. In 1997, the Company established a Voluntary Employee Benefit Association.

The Company has adopted the delayed recognition method under which the unrecorded SFAS No. 106 liability as of January 1, 1993, will be amortized to expense on a straight-line basis over a 20-year period.

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For Years Ending December 31, 2009 and 2008

Dividends

Aqua Illinois, Inc. has projected annual dividend payments of \$20,724 to its preferred stockholders in 2009, and \$20,724 in 2008. In addition, the projected common stock dividend for 2009 is \$6,000,000 and 2008 is \$9,000,000.

(3) HYPOTHETICAL ASSUMPTIONS

Water rates

The preparation of the Projected Financial Information is based on the assumption that the water rates in effect during 2007 for Vermilion Water will not change prior to December 31, 2009.

The purpose of the Projected Financial Information is to reflect water rates in effect pursuant to the Company's most recent rate order and the Company's projected operating expenses for the year ending December 31, 2009 and 2008. Such information will then be included in the Company's application for an increase in water rates. The Illinois Commerce Commission requires the use of a projection based on the assumption that there will be no rate increase during the projection period.

(4) OPERATING REVENUES

Projected operating revenues are derived by applying the water rates in effect during 2007 to current and historical water consumption trends adjusted for expected changes in the number and mix of customers during 2009 and 2008. Historical data on consumption is used to determine price per 1,000 gallons. The growth in consumption multiplied by consumption price results in the projected revenue.

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(5) OPERATING AND MAINTENANCE EXPENSES

As presented in the following assumptions, operating and maintenance expense items have been projected based on a number of factors. For those areas where firm bids have not been received or other pertinent information is not available, management expects the cost escalator rate to be 3% for the years to end December 31, 2009 and 2008. Where appropriate, this cost escalator rate was used in the development of operating and maintenance expense amounts.

Significant components of operating and maintenance expenses include the following:

A. Salaries, Wages and Employee Benefit

The company has salaried, union hourly wage positions, and part-time hourly employees. All employees are paid on a bi-weekly basis. Wage and salary increases are projected for 2009 based on inflationary factors plus employee performance. Wage and salary allocated to Vermilion Water are determined based on the number of customers expected to be served by the division in each year. Employee insurance premiums are projected based on insurance contracts in place for the year ended December 31, 2007. 2009 wage and salary increases are 4% with a 10% increase in employee benefits due to health benefits over the 2008 projected numbers. Union employees work under a contract that will expire on May 31, 2008.

B. Power

Cost of power is projected at a 3% increase in rate for the year 2009 due to normal inflationary growth.

C. Chemicals

Projected chemical expense is based on discussions with suppliers and expected usage. Expected chemical usage for the year ending December 31, 2009 and 2008 assumes normal weather patterns and a normal source of water quality with no changes in the level of unaccounted for water loss.

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D. Materials and Supplies

Materials and supplies were projected to increase for 2009 by the inflationary rate of 3%.

E. Contractual Services

These services include allocations from Aqua America, Inc. for costs such as customer services, administrative personnel, insurance, computer services, accounting, legal, engineering, operations and regulatory practices. These expenses are allocated to each division based on equivalent customers for that division. Company management believes the use of equivalent customers approximates the amount of support the division will receive from the Aqua America corporate structure. Other outside contractors are used for maintenance and other services so the expense has been projected based on 3% inflation and for known or expected contracts.

F. Transportation Expense

Maintenance transportation expense has been forecasted to increase by the general inflation rate of 3% for the year 2009.

G. Insurance Expense

Workers' compensation insurance and general liability insurance are projected based on current premiums adjusted for increase premiums of 7% for the year 2009.

H. Uncollectible Expense

Projected uncollectible expense for the years ended December 31, 2009 and 2008, were based on overall projected percentage of uncollectible accounts for Illinois, which is 1.45% of total revenue.

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I. Miscellaneous Expenses

These expenses are primarily composed of postage, telephone, court costs, other administrative and general expenses, and amortization of deferred tank painting expenses. In most cases, projected amounts were increased by the general inflation rate of 3% unless specific information relating to a one time expense or overall increases, such as the postage rate increase, were determined.

J. Corporate Expense Allocation

Aqua Illinois Inc. corporate charges are allocated for costs such as items for customer services, administrative personnel, insurance, operations, and general corporate charges and are allocated based on equivalent customers for that division. The Company management believes the use of equivalent customers approximates the support to be received from the Aqua Illinois Inc. corporate structure.

K. Depreciation Expense

Utility plant additions and retirements included for purposes of calculating the projected depreciation expense for 2009 are based on the Company's capital investment projections.

(6) TAXES ON OPERATING INCOME

General Taxes

General taxes consist of real estate property taxes, invested capital taxes, payroll taxes and miscellaneous taxes.

The projected general taxes expense includes the additional property tax base resulting from projected plant additions, projected increased labor costs and increases in invested capital. Property tax projections are based on the most current reassessments and anticipated changes in property tax rates. Investment capital taxes are calculated for Aqua Illinois Inc. in total and then allocated to each division. The allocation of these taxes was based on the number of equivalent customers.

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Federal and State Income Tax

Accounting for income taxes requires an asset and liability approach for financial accounting and reporting. The Company is required to establish deferred tax assets and liabilities as appropriate, for all temporary differences and to adjust deferred tax balances to reflect changes in tax rates expected to be in effect during the period the temporary differences reverse. Temporary differences occur because the income tax law either requires or permits certain items to be reported on the Company's income tax return in a different year than they are reported in the financial statements.

The Company is included in the consolidated income tax returns of Aqua America, Inc.. Income taxes in these financial projections have been determined as if the Company prepared its tax returns on a stand-alone basis.

The Projected Statement of Utility Operating Income does not reflect certain expenses, such as interest expense. However, such expenses are reflected in taxable income and accordingly, affect income tax expense. The primary reason for the difference between the expected federal and state income tax expense at the statutory rate of 35% for federal and 7.3% for state are the non-operating income items.

For purposes of this rate case, the deferred income tax expenses have been projected on a company-wide basis and then allocated to each division. The allocation factor is the individual division portion of the asset or liability giving rise to the deferred tax amount.

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**(7) CUSTOMER ADVANCES FROM CONSTRUCTION AND CONTRIBUTIONS
IN AID OF CONSTRUCTION**

Projected contributions in aid of construction assumes projects financed by customer advances and contributions are completed in the year the funds are received and that advances and contributions will approximate the projected construction costs required to complete the project. Accordingly, projected customers advances and contributions are credited directly to contributions in aid of constructions and the related depreciation on the contributed property is also charged to contributions in aid of construction.